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C O N F I D E N T I A L SECTION 01 OF 02 SOFIA 001288

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TAGS: [ECON](#) [ENRG](#) [EU](#) [PGOV](#) [RU](#) [BG](#)
SUBJECT: AMBASSADOR DELIVERS SOUTH STREAM POINTS

REF: A. A) SECSTATE 150552
[1](#)B. B) SOFIA 1240 (NOTAL)
[1](#)C. C) SOFIA 0949 (NOTAL)

Classified By: Ambassador John Beyrle for reasons 1.4 (b) and (d).

[1](#)1. (C) Summary. In response to ref A points on South Stream, Bulgarian Minister of Economy and Energy Petar Dimitrov told Ambassador October 31 that he welcomed and valued the U.S. appraisal of the project. He expressed concern that if Bulgaria did not go forward with South Stream, Romania, Turkey, or Greece would. He said Bulgaria would like to team up with other European Union members in its negotiations with the Russians on South Stream, but Russia is insisting on bilateral negotiations, and Italy, known for its special relationship with Russia on energy, is "controlling the dialog" on the project within the EU. He reported that contrary to Russia's wishes, Bulgaria is insisting that South Stream involve a new, "additional" pipeline on Bulgarian territory, otherwise the ownership structure of Bulgaria's existing pipeline infrastructure would be in doubt. Dimitrov said Bulgaria is firmly committed to Nabucco, but expressed concern about the security of Nabucco's gas supply. If Nabucco doesn't happen, he said, "Bulgaria needs South Stream." Separately DCM delivered South Stream points to PM foreign policy adviser Valentin Radomirski, who confirmed that Minister Dimitrov would travel to Moscow in early November to sign an MOU on South Stream, a paper he described as a single page and "close to a nothing document." Radomirski said the Bulgarians are aware of Russian divide and conquer tactics and complained that Russia is consistently trying to change the terms of negotiations on both South Stream and the Burgas-Alexandropolous pipeline (BAP). He said pressure to sign deals on these two projects will only increase as Putin's January visit approaches. End Summary.

[1](#)2. (C) Ambassador delivered Ref A points on South Stream to Minister of Economy and Energy Petar Dimitrov October 31. Dimitrov responded that he welcomed U.S. views on South Stream and other energy projects such as BAP, the AMBO pipeline, Nabucco, and the Belene nuclear plant. He said the media has been delivering a consistent supply of misinformation about all of these projects, which has served to frighten away certain potential investors and caused political tensions. He said Bulgaria has a clear idea of what its interests are in the near-term, but is having difficulty surmising the ramifications of energy deals like South Stream "30 years out." Dimitrov described South Stream as a controversial project- good for project partner Italy

and Western Europe, good for Bulgaria in terms of transit fees, but unpopular with countries such as Ukraine, Moldova and Romania, which may see their roles as transit countries diminish due to the project. He expressed concern that if Bulgaria did not go forward with South Stream, there would be no hesitation on the part of Turkey, Greece and Romania to take Bulgaria's place. Ambassador replied that the USG would deliver the same message to all of these countries. Ambassador urged Bulgaria to coordinate with other EU members when negotiating with the Russians on South Stream, just as Greece and Bulgaria are negotiating together with Russia on BAP. Dimitrov replied that Russia is insisting on bilateral negotiations with each of the South Stream partners, and Italy, known for its special relationship with Russia on gas, is "controlling the dialog" on South Stream within the EU.

¶3. (C) On Nabucco, Dimitrov said Bulgaria is firmly committed but he expressed concerns over input and the route Nabucco would take, citing the potential for political instability in the region. The Ambassador countered by citing the trouble-free operation of the Baku-Tbilisi-Ceyhan oil pipeline along the same route as the South Caucasus gas pipeline. The real issue was, however, whether Gazprom would be able to supply sufficient gas at competitive prices for South Stream. He urged Dimitrov to demand that Russia identify the source of gas for South Stream and the timetable for its development. Dimitrov said the GOB also had doubts about the cost competitiveness of Russian gas. He said Bulgaria had recently held discussions with Kazakhstan and Uzbekistan about developing gas fields in those countries and the prices offered were two to three times lower than Russian offers.

SOFIA 00001288 002 OF 002

¶4. (C) Separately, DCM delivered South Stream points to PM Foreign Policy Adviser Valentin Radomirski October 31. Radomirski, who is on the GOB's South Stream Working Group, confirmed Minister Dimitrov would travel to Moscow to sign an MOU on South Stream (ref B) on/about November 6. (Note: Dimitrov did not mention this in his meeting with the Ambassador.) Radomirski described the MOU as a single page and "close to a nothing document" which leaves the details to a future Intergovernmental Agreement. (Note: Post has early versions of this one-page MOU.) He said the Russians are consistently showing bad faith in their negotiations on BAP and South Stream, but pressure to sign deals on these projects will only increase as Putin's January visit approaches. Radomirski also stated that Bulgaria wants Russia to specify where the pipeline extension would exit Bulgaria -- Greece, Romania, Serbia, Macedonia. Bulgaria wants diversity of sources, and at a minimum, diversity of pipelines. He suspected that the Russian bureaucracy has 1) not thought through all the routing issues; 2) does not want to give Putin bad news; and 3) will step up pressure on Bulgaria and others in divide and conquer tactics. He welcomed the idea of hiring an expert to advise Bulgaria but thought it would be more advantageous after the MOU is signed and the EU has additional clarity on its energy policy. (Comment: We believe that is too late.)

¶5. (C) Comment: It is clear Dimitrov has been influenced by Gazprom's propaganda casting doubt on Nabucco's prospects, and the GOB is again feeling Russian pressure aimed at the "inevitability factor" for South Stream. We will reach out to all members of Bulgaria's South Stream working group to lay out the facts about Azerbaijan and Nabucco and reinforce the need for the GOB to obtain legal counsel when negotiating the IGA with the Russians. (Note: Ambassador provided Dimitrov with a list of legal advisers recommended by USAID.) Ambassador also invited Dimitrov and 1-3 close advisers to visit the United States for energy and investment consultations as part of a Voluntary Visitor Program. As soon as we receive dates from the Minister, we will work with Department to set up a program that will showcase for Dimitrov, a relative newcomer to the field of energy (ref C),

how the U.S. views and regulates energy. Such a trip would offer a strategic chance to drive home the USG's views on South Stream in advance of Putin's expected visit to Sofia in January 2008. End Comment.

Beyrle